

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 AID-05 CIAE-00

COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06

XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 /107 W

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P 220740Z AUG 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4029

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 13086

USADB

FOR NAC AGENCIES

PASS TREASURY FOR BRADFORD

E.O. 11652: NA

TAGS: EAID, EFIN

SUBJECT: REVIEW OF CRITERIA FOR LENDING FROM ASIAN DEVELOPMENT  
FUND

SUMMARY: ADB MANAGEMENT HAS ISSUED DOCUMENT TO BOARD OF  
DIRECTORS RECOMMENDING THAT ALLOCATION OF ASIAN DEVELOPMENT  
FUND (ADF) RESOURCES AMONG DMCS CONTINUE TO BE DONE ON BASIS  
OF COUNTRY APPROACH, WITH PER CAPITA GNP AND DEBT REPAYMENT  
CAPACITY BEING PRINCIPAL CRITERIA TO DETERMINE COUNTRY  
ELIGIBILITY. DOCUMENT CONCLUDES THAT, WHILE MORE DEVELOPED  
DMCS, PARTICULARLY THOSE WITH PER CAPITA GNP ABOVE \$380 IN  
1975, HAVE MADE SUBSTANTIAL PROGRESS, POORER COUNTRIES WITH  
PER CAPITAL GNP OF \$200 OR LESS HAVE PROGRESSED LESS. AT SAME  
TIME, LATTER'S REPAYMENT CAPACITY HAS FURTHER WEAKENED AND  
THEIR NEEDS FOR CONCESSIONAL LENDING HAVE INCREASED. DOCUMENT  
CONCLUDES THAT WHILE RELATIVELY SMALL AMOUNT OF ADF LENDING TO  
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MARGINALLY ELIGIBLE DMCS (I.E., INDONESIA, PHILIPPINES AND  
THAILAND) MAY BE JUSTIFIED, CONSTRAINT IN ADF RESOURCES  
MAKES THIS INFEASIBLE DURING CURRENT ADF REPLENISHMENT  
PERIOD. SPECIAL CONSIDERATION NEEDS TO BE GIVEN TO  
CERTAIN SOUTH PACIFIC DMCS. USADB FINDS BANK'S ASSESSMENT  
ON THE WHOLE PERSUASIVE, BUT BELIEVES A SMALL AMOUNT OF  
LENDING TO MARGINALLY ELIGIBLE DMCS (INDONESIA,

THAILAND AND THE PHILIPPINES) MAY BE JUSTIFIED. END SUMMARY.

1. ADB DOC. R83-77 ON ABOVE SUBJECT WAS POUCHED AUGUST 16 AND IS SCHEDULED TO BE CONSIDERED BY BOARD OF DIRECTORS ON SEPTEMBER 7. U.S. EXECUTIVE DIRECTOR HAS REQUESTED THAT MEETING BE POSTPONED FOR SEVERAL WEEKS. HOWEVER, AS PRESIDENT WISHES TO HAVE ISSUE DECIDED PRIOR TO HIS DEPARTURE FROM MANILA FOR SEPTEMBER VISIT TO EUROPEAN MEMBER COUNTRIES AND ATTENDANCE AT IBRD/IMF ANNUAL MEETINGS IN WASHINGTON, DELAY OF MORE THAN ONE WEEK APPEARS UNLIKELY.

2. POLICY ON ADF LENDING WAS ESTABLISHED WHEN FUND WAS ESTABLISHED IN SEPTEMBER 1974. PRIMARY CRITERIA FOR ELIGIBILITY WERE RELATED TO PER CAPITA GNP AND DEBT REPAYMENT CAPACITY. FULLY ELIGIBLE DMCS INCLUDED ALL WHOSE PER CAPITA GNP IN 1972 WERE \$200 OR BELOW (EXCEPT INDONESIA). MARGINALLY ELIGIBLE COUNTRIES WERE THOSE WITH PER CAPITA GNP BETWEEN \$200 AND \$300, NAMELY KOREA, PHILIPPINES AND THAILAND. INDONESIA WAS INCLUDED IN THIS CATEGORY ALTHOUGH ITS PER CAPITA GNP (\$96) WAS BELOW \$200 IN 1972 BECAUSE OF ITS EXPECTED IMPROVED REPAYMENT CAPACITY DUE TO ITS OIL EXPORTS. SPECIAL CONSIDERATION WAS GIVEN TO CERTAIN DMCS IN SOUTH PACIFIC. THUS, PAPUA NEW GUINEA WITH PER CAPITA GNP ABOVE \$300 IN 1972 AND SOLOMON ISLANDS WITH PER LIMITED OFFICIAL USE

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CAPITA GNP SLIGHTLY ABOVE \$200 WERE INCLUDED IN FULLY ELIGIBLE CATEGORY. UNDER 1974 POLICY, BLENDING OF ADF AND ORDINARY CAPITAL (OC) LOANS COULD OCCUR IN TWO CIRCUMSTANCES: (A) WHEN SIZE OF BANK'S OPERATIONAL PROGRAM IN COUNTRY FULLY ELIGIBLE FOR ADF LOANS WAS GREATER THAN ADF RESOURCES AVAILABLE AND COUNTRY HAS CAPACITY TO ABSORB OC FUNDS; AND (B) A MARGINALLY ELIGIBLE COUNTRY MIGHT RECEIVE ADF LOAN ASSISTANCE TO EXTENT RESOURCES WERE AVAILABLE. (IN 1974, INDONESIA (\$14.2 MILLION), PHILIPPINES (\$5.8 MILLION) AND THAILAND (\$5.0 MILLION) RECEIVED ADF RESOURCES UNDER BLENDING ARRANGEMENT, BUT NONE SUBSEQUENTLY. KOREA HAS NOT RECEIVED ANY SPECIAL FUNDS LOAN SINCE 1972.)

3. SINCE 1972, AND BASED ON 1975 DOLLAR ESTIMATES OF PER CAPITA GNP, THERE HAVE BEEN SOME SIGNIFICANT CHANGES IN RELATIVE COUNTRY POSITIONS. (FIGURE OF \$380 IN 1975 DOLLARS IS ROUGHLY EQUIVALENT TO LEVEL OF \$300 IN 1972 DOLLARS.) KOREA HAS FAR SURPASSED ELIGIBILITY CEILING (\$550), WHILE THAILAND (\$350) AND PHILIPPINES (\$370), ARE NOW MUCH CLOSER TO CEILING THAN BEFORE. INDONESIA, FORMERLY ONE OF POOREST, NOW HAS PER CAPITA GNP OF \$180

AND TOPS LIST OF COUNTRIES FULLY ELIGIBLE FOR ADF FINANC-  
ING. NOMINAL INCREASE FOR MOST SOUTH PACIFIC DMCS  
REPRESENT LITTLE IMPROVEMENT IN REAL TERMS. IN CONTRAST,  
GROWTH IN PER CAPITA GNP OF FULLY ELIGIBLE DMCS  
IS SEEN TO BE WEAL AND SLOW, AND FOR SOME THERE HAS  
ACTUALLY BEEN A DECREASE IN REAL TERMS, SO THAT GAP  
BETWEEN POOREST AND OTHER DMCS HAS WIDENED IN RECENT  
YEARS.

4. IN VIEW ABOVE, BANK CONCLUDES THAT NEED OF POORER  
AND LESS DEVELOPED COUNTRIES FOR HIGHLY CONCESSIONAL  
ASSISTANCE IS, IF ANYTHING, EVEN GREATER THAN WHEN  
PRESENT CRITERIA FOR ADF ALLOCATION WERE ADOPTED IN 1974.  
IT QUESTIONS ANY JUSTIFICATION TO EXTEND SCOPE OF  
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ELIGIBILITY (INCLDING MARGINAL ELIGIBILITY) BEYOND THAT  
ESTABLISHED IN 1974 AND CONSIDERS IT APPROPRIATE TO  
CONTINUE BASIC FEATURES OF PRESENT POLICY, WHILE ADJUSTING  
CUT-OFF POINT IN TERMS OF 1975 DOLLARS AND MODIFYING  
ELIGIBILITY OF INDIVIDUAL DMCS TO REFLECT IMPROVEMENTS  
IN THEIR ECONOMIC SITUATION. IT WOULD FOLLOW THAT ACCESS  
OF marginally ELGIBLE COUNTRIES TO ADF LOANS SHOULD  
DEPEND ESSENTIALLY ON MAGNITUDE OF AVAILABLE RESOURCES.  
ON THIS BASIS, FULLY ELIGIBLE COUNTEIES WOULD REMAIN THE  
SAME. WHTHING GROUP OF FULLY ELIGIBLE COUNTRIES BANK

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ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-13 AID-05 CIAE-00  
COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06  
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SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 /107 W  
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P 220740Z AUG 77

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 4030

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FOR NAC AGENCIES

PASS TREASURY FOR BRADFORD

CONSIDERS THAT BLENDED LOANS SHOULD CONTINUE TO BE LIMITED TO PAKISTAN, SINCE ADF AVAILABLE RESOURCES ARE INSUFFICIENT TO FINANCE THE BANK'S RELATIVELY LARGE INVESTMENT PROGRAM IN THAT COUNTRY. INDONESIA WOULD REMAIN IN MARGINALLY ELIGIBLE GROUP, WHILE KOREA WOULD NO LONGER BE SO CLASSIFIED. SOUTH PACIFIC DMCS, EXCEPT FOR FIJI, WOULD CONTINUE TO DESERVE SPECIAL CONSIDERATION. (SOLOMON ISLANDS, TONGA, WESTERN SAMOA, GILBERT ISLANDS AND COOK ISLANDS WOULD BE FULLY ELIGIBLE FOR ADF LOANS, WHILE PAPUA NEW GUINEA, WHICH HAS RECENTLY GRADUATED FROM FULL ELIGIBILITY BECAUSE OF AN IMPROVEMENT IN ITS ECONOMY AND ITS REPAYMENT CAPACITY (PER CAPITA GNP OF \$450 IN 1975), WOULD RECEIVE A BLEND OF LOANS.

5. BANK CONCEDES THAT THERE ARE FACTORS WHICH WOULD SEEM TO JUSTIFY IN PRINCIPLE A MODEST PROPORTION OF LIMITED OFFICIAL USE

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BANK'S TOTAL LENDING IN INDONESIA, THAILAND AND PHILIPPINES BEING MADE AVAILABLE ON CONCESSIONAL TERMS, PARTICULARLY FOR PROJECTS DESIGNED TO BENEFIT POOREST SECTION OF POPULATION. HOWEVER, SEVERE RESOURCE CONSTRAINTS AND INCREASED EMPHASIS TO POORER DMCS (AND ALSO POSSIBILITY OF PROGRESS IN INDOCHINA TOWARD NORMAL CONDITIONS) MAKE IT INFEASIBLE TO MAKE ANY ADF LOANS TO MARGINALLY ELIGIBLE DMCS DURING FIRST ADF REPLENISHMENT PERIOD (1976-1978). HOWEVER, IN PERIOD OF NEXT REPLENISHMENT AND DEPENDENT ON SCALE OF RESOURCES THAT MAY ACCRUE, THERE WOULD BE CASE FOR REVIEWING POSITION REGARDING MARGINALLY ELIGIBLE COUNTRIES. SUCH REVIEW IS PROPOSED TO BE MADE AT TIME WHEN SCALE OF SECOND ADF REPLENISHMENT IS FINALLY SETTLED.

6. USADB COMMENT: BANK HAS PRESENTED A GOOD CASE FOR CONTINUATION OF SAME BASIC PROGRAM REGARDING ALLOCATION OF ADF RESOURCES. IT IS HARD TO REFUTE POINTS MADE, PARTICULARLY BANK'S FOCUS ON LESS DEVELOPED OF DMC. WE BELIEVE APPROPRIATE EMPHASIS IS BEING GIVEN TO SOUTH PACIFIC MEMBER COUNTRIES.

7. OF THE TOTAL ADF LENDING IN 1974-76, HOWEVER,

ALMOST 80 PERCENT WENT TO FIVE COUNTRIES - BANGLADESH (27.35 PERCENT); BURMA (16.28 PERCENT); PAKISTAN (17.53 PERCENT); NEPAL (11.15 PERCENT) AND SRI LANKA (6.35 PERCENT).

8. IT, HOWEVER, DOES SEEM TO USADB THAT A SOMEWHAT WIDER DISTRIBUTION OF THE BANK'S ADF LENDING MIGHT POSSIBLY BE JUSTIFIED AND BE IN THE OVERALL U.S. INTEREST.

9. IF THE U.S. OBJECTIVE WERE TO OBTAIN A BROADER LIMITED OFFICIAL USE

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DISTRIBUTION OF ADF LOANS, ONE LINE OF APPROACH MIGHT BE TO PROPOSE AN ALTERED SET OF CRITERIA TO PROVIDE THE BASIS FOR ADF LENDING. ON THE OTHER HAND THE PRESENT CRITERIA APPEARS BROAD ENOUGH TO PERMIT MODEST AMOUNTS OF ADF CREDITS TO BE EXTENDED TO INDONESIA, THAILAND, AND THE PHILIPPINES. FURTHERMORE, TRYING TO REVISE THE GUIDELINES WOULD UNDOUBTEDLY OPEN UP A WIDESPREAD PSEUDO-INTELLECTUAL DEBATE IN THE BOARD, WHICH COULD ONLY SERVE TO ASSIST THE BANK MANAGEMENT AND THOSE WHO WOULD WISH TO RETAIN THE PRESENT LENDING PATTERNS. WE THEREFORE TEND TO FAVOR ACCEPTING THE PRESENT GUIDELINES WHICH ARE SUFFICIENTLY FLEXIBLE TO ALLOW A WIDER LENDING PATTERN. WE MIGHT WISH TO CONSIDER PROPOSING THAT THE "MARGINALLY ELIGIBLE DMCS" OF INDONESIA, THE PHILIPPINES, AND THAILAND RECEIVE SOME MODEST PORTION OF ADF LENDING (PERHAPS ABOUT 15 PERCENT OF THE TOTAL).

10. THE PRINCIPAL ARGUMENT OF THOSE WHO WISH TO RETAIN THE PRESENT MORE RESTRICTED ADF LENDING PATTERN IS SIMPLY THAT THE NEEDS IN THESE COUNTRIES ARE VAST AND THAT THE AVAILABLE FUNDS SEVERELY LIMITED. THE MOST LOGICAL ARGUMENTATION WE CAN THINK OF IN FAVOR OF A BROADER LENDING PATTERN IS THAT EVEN IN COUNTRIES IN WHICH PER CAPITA INCOME HAS SUBSTANTIALLY IMPROVED, LARGE POCKETS OF POVERTY REMAIN AND THAT IT IS QUESTIONABLE POLICY FOR THE BANK TO REJECT PROSPECTIVE ADF FINANCED SOCIAL PROJECTS THAT PROPOSE TO SERVE THESE POOREST SEGMENTS OF SOCIETY.

11. EMPHASIS ALSO COULD BE GIVEN TO THE INCREASING DIFFICULTY THE BANK BELIEVES INDONESIA, THE PHILIPPINES, AND POSSIBLY THAILAND WILL EXPERIENCE IN THEIR DEBT SERVICE CAPACITIES IN THE NEXT FEW YEARS.

12. AUSTRALIA IS LIKELY TO ACCEPT THE PRESENT GUIDELINES LIMITED OFFICIAL USE

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BUT PROPOSE THAT THE CUT-OFF IN THE PER CAPITA GNP LEVEL BE RAISED TO \$500. THIS WOULD RETAIN ALL THE SOUTH PACIFIC COUNTRIES INCLUDING PAPUA NEW GUINEA IN WHICH AUSTRALIA HAS A SPECIAL INTEREST. AUSTRALIA WOULD LIKE TO SEE PAPUA NEW GUINEA ELIGIBLE FOR A BLENDING OF ADF AND OC LOANS SIMILAR TO THAT PRESENTLY RECEIVED BY PAKISTN. KOREA WOULD BE EXCLUDED AS ITS PER CAPITA INCOME LIES JUST ABOVE THE \$500 FIGURE.

13. WE WOULD APPRECIATE RECEIVING THE BENEFIT OF WASHINGTON GUIDANCE, INCLUDING YOUR SPECIFIC COMMENT ON THE AUSTRALIAN IDEA AS SOON AS POSSIBLE, FOR IT WE ARE TO FAVOR A BROADER GEOGRAPHIC DISTRIBUTION OF ADF LOANS, IT WILL BE IMPORTANT TO COORDINATE TACTICS WITH LIKE MINDED DONORS.  
EDMOND

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## Message Attributes

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**TAGS:** EAID, EFIN, XX, ADB  
**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009